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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

NIC #01704-84
14 March 1984

National Intelligence Council

MEMORANDUM FOR THE RECORD

SUBJECT: 14 March SIG-IEP Meeting

1. The SIG-IEP meeting on 14 March dealt with two topics: (1) Renewal of the US-USSR Agreement on Economic, Industrial and Technical Cooperation; and (2) Review of the Argentine and Venezuelan Debt Situation.

US-Soviet Agreement

2. The US-USSR Agreement expires on June 28, 1984. The issue is whether or not to renew it. It was generally agreed that:

- o The Agreement has little if any direct impact on trade and no impact on technology transfer.
- o It is of some use in arranging acceptable working conditions for US firms in the USSR.
- o Its importance is symbolic--the decision to renew or not to renew will be read as a signal concerning Administration attitude on US-Soviet relations.

3. State, Commerce, STR, and CEA favor renewal of the Agreement. They believe renewal entails no risks and is consistent with the President's latest policy statements on US-Soviet relations. They also believe that non-renewal would give a strong negative signal, which might trigger adverse Soviet reactions, perhaps affecting US exports. DoD is against renewal, arguing that it would involve an unwarranted positive signal and that allowing the Agreement to lapse is consistent with the President's policy.

4. It was agreed to bring the issue before the NSC, together with the differing views. The options to be presented include:

- o non-renewal;
- o renewal involving a high-level announcement--so as to give a strong positive signal;

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- o renewal at the lowest possible bureaucratic level (probably DAS) to minimize publicity.

The Argentine Debt problem

5. The Argentine debt situation is building up to a crisis. Negotiations with the IMF are proceeding slowly. The Argentine President apparently has not yet focused on the immediacy of the debt problem. The Argentines are bargaining tough.

6. The immediate problem is that if Argentine interest arrears persist through the end of March (and consequently will have been outstanding for more than 90 days), US regulatory authorities will force US banks to classify Argentine debt as substandard. This means putting loans to Argentina on a non-accrual basis, which would cut the earnings of the largest US banks by some \$350 million, or 6 percent. There is the further risk that if Argentina is unable to negotiate an IMF agreement within the next three months or so, the regulators may force the banks to place Argentine debt in the lowest category (together with the debt of Bolivia, Nicaragua, Poland, and Zambia), forcing the banks to reserve funds to cover potential losses.

7. There is considerable flexibility in the regulatory rules. The Argentines do not have to pay off all the arrears at once, but must make partial payment and show the intention and the means to complete the process. In the event banks have to increase their reserve funds, they could do so gradually. There is also not much concern about the possibility of banks declaring Argentina in default. But there is serious concern that banks with relatively small Argentine exposure will be prepared to write it off. This would make it far more difficult to develop any future loan packages for Argentina. The chances are also that trade credit would disappear. And the negative reaction to Argentine development would probably adversely affect credit to other Latin American countries.

8. Secretary Regan has written to his Argentine counterpart Grinspun to clearly inform him of what may happen if a serious effort is not made to pay off arrears. Treasury wants to ensure that the Argentines make a decision one way or another rather than be overtaken by events. They are looking for concessions from the banks and probably also from the US Government as a quid pro quo for paying off arrears. Other debtor countries are watching Argentina closely, hoping they can benefit from Argentine toughness. It was generally agreed that although Argentina does not want to appear as a nation incapable of paying its debts, it holds strong cards in the event of a conflict. Specifically, US citizens have much larger assets in Argentina than the Argentines have in the US. Moreover, Argentina's trade is not highly vulnerable to a withdrawal of credit or to creditors' sanctions.

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Venezuela

9. Venezuela also has large debt service arrears, mostly for private debt. Under its severe exchange controls, no funds are available for private debt servicing. There are also some arrears on official debt, including about \$115 million in arrears on debt to the US Government

The US will have to decide whether Venezuela can still qualify for any US Government-aided credits under these circumstances.

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